UNIVERSITY EXAMINATIONS: 2013/2014

EXAMINATION FOR THE MASTERS OF SCIENCE (MSC) IN COMMERCE

MSF 501 CORPORATE GOVERNANCE AND ETHICS (WEEKEND)

DATE: APRIL, 2014 **TIME: 3 HOURS**

INSTRUCTIONS: Answer Question One and Any Other Three Questions

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QUESTION ONE (31 MARKS)

CORPORATE GOVERNANCE PRACTICES AT PYTECO CORPORATION

Pyteco, the UK's largest retailer, had been built on the "pile it high and sell it cheap" philosophy. Pyteco's operations included convenience and gasoline retailing (Pyteco Express), small urban stores (Pyteco Metro), hypermarkets (Pyteco Extra) and financial services. Pyteco had a profitable on-line business, and was also one of the more globalized companies in retailing industry. Since 1993, the company had grown significantly outside the UK, operating more than 300 stores (including hypermarkets) in other countries. Pyteco's acquisition of C Two-Network, a small Japanese convenience store operator, marked its entry into the world's second largest consumer market.

Although food had been Pyteco's core business, the company had been actively expanding its nonfood offerings, including clothing, gasoline, travel, financial services, and even residential phone services. Pyteco was also challenging rivals J Sainsbury and Wal-Mart owned ASDA on the fashion front with an exclusive agreement with US clothing brand Cherokee to supply fashions to its sores. To strengthen its presence in the convenience store market, Pyteco had bought T&S Stores, and had plans to bring them under the Pyteco Express banner. In 2002, Pyteco generated sales of $96.8 million and reported a net loss of $0.7 million. Pyteco had committed itself to high standards of corporate governance by applying the principles set out in the combined code.

In late 2003, the company introduced changes in its board structure to facilitate the long-term development of board practices. Earlier on in 2002, Pyteco's Board of Directors consisted of eight executive directors and six independent non-executive directors. The company had separated the offices of the Chief Executive Officer (CEO) and that of the Chairman of the Board to establish a clear division of accountability and responsibility to operate effectively. The Board attempted to ensure that no individual or group dominated the decision-making processes. The Board was responsible for approval of financial statements, major acquisitions and disposals, treasury policies, risk management, governance policies, succession plans for senior executives and Corporate Social Responsibility.

Pyteco's Board operated the key governance structures with the help of various committees: Executive Committee, Nominations Committee, Remuneration Committee, Audit Committee and Compliance Committee. The remuneration of the independent non-executive directors was determined by the Board as a whole on the recommendation of the executive committee after considering external market research. Independent non-executive directors had letters of appointment, and their appointment could be terminated by either party without notice. Each appointment was subjected to review every three years.

Required:

(a) Critically discuss the implications of separation of the offices of Chief Executive Officer (CEO) and Chairman at Pyteco Corporation (15 Marks)

(b) Explain how Pyteco Corporation would benefit by enhancing independence of the non-executive directors (16 Marks)

QUESTION TWO

(a) Briefly explain the role of ownership identity on firm performance. (12 Marks)

(b) (b) What are the corporate governance implications of diffuse ownership of a firm? (11 Marks)

QUESTION THREE

(a) Using relevant examples, explain the factors driving the renewed interest in corporate governance in the past two decades (12 Marks)

(b) What does a company stand to benefit by embracing good corporate governance practices? (11 Marks)

QUESTION FOUR

(a) Critically discuss the two schools of thought that explain the relationship between ownership concentration and firm performance. (12 Marks)

(b) Using relevant examples, explain what would inform your decision to invest in a "concentrated" firm. (11 Marks)

QUESTION FIVE

(a) Why do the interests of agents often diverge from those of principals in an agency relationship? (10 Marks)

(b) Critically explain the implications of the divergent interests between agents and principals on managerial decision making processes (13 Marks)

QUESTION SIX

(a) Briefly explain the critical role of the Chief Executive Officer in corporate governance (10 Marks)

(b) Using relevant examples, briefly explain the signs of a corporation in distress at the finance level. (13 Marks)